FINAL REPORT

Real prop. tax -- CA
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OF THE

San Diego co. -- App. & expen.

SAN DIEGO COUNTY
BLUE RIBBON COMMISSION
TO STUDY
PROPOSITIONS 8 AND 13 ON THE
JUNE 6, 1978 BALLOT

MAY 10, 1978

1803897

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PREFACE

The Blue Ribbon Commission to study Proposition 8/Senate Bill 1, and Proposition 13, the Jarvis-Gann Initiative, was created by the San Diego County Board of Supervisors on March 28, 1978. The Board of Supervisors directed this Commission to make findings of fact relative to Propositions 8 and 13 on the June 6, 1978 ballot. The Commission was requested to file a report for consideration by the Board of Supervisors at a conference scheduled for 8:30 a.m. on May 10, 1978.

The Commission was composed of representatives of prominent organizations from throughout San Diego County. Those persons listed on the previous page participated in the proceedings of the Commission. The findings and contents of this report represent the consensus of the participants, and do not necessarily represent the policy of any individual organization represented. Some individual members of the Commission have submitted memoranda of comment, reservation or dissent. These are noted by footnotes in the text and are contained in Section VII.

The Commission held its first meeting on April 6, 1978 and has met eight additional times since then. Numerous reports and analyses of Propositions 8 and 13 and Senate Bill 1 have been reviewed by the Commission. Additionally, the Commission reviewed correspondence concerning the effect of Propositions 8 and 13 received from many local government agencies in San Diego County. Copies of the reports, analyses and correspondence considered by the Commission have been included in a separate volume which is available upon request from the County Office of Management and Budget.

The Commission expresses its appreciation to the Board of Supervisors for this opportunity to serve the residents of the County of San Diego. We sincerely hope that the findings contained in this report will assist the Board of Supervisors and voters of San Diego County in reaching an informed decision on Propositions 8 and 13 on June 6, 1978.

TABLE OF CONTENTS

TABLE OF CONTENTS
(cont'd)

I. INTRODUCTION AND FINDINGS

On June 6, 1978 voters in San Diego County will join voters from throughout California in deciding the outcome of two significant ballot propositions dealing with property taxation. The first, Proposition 8, is a Constitutional amendment that was placed on the ballot by the State Legislature. The second, Proposition 13, is a Constitutional amendment that was placed on the ballot by the initiative process. Each proposition requires a simple majority (50% plus 1 vote) of the votes cast on the measure to be enacted into law.

Proposition 8 will permit the taxation of owner-occupied property at a lower tax rate than other property, so long as the rate on other property doesn't increase. The Legislature has adopted legislation, Senate Bill 1, which will go into effect if Proposition 8 passes and Proposition 13 fails. Senate Bill 1 will provide a 30% property tax reduction to owner-occupiers of residential property, increase tax relief to renters by $38 a year, increase special property tax relief to senior citizen homeowners and renters, and place a property tax revenue limitation on local governments.

Proposition 13 will limit property taxes to 1% of the market value of all real property; establish market value as the 1975-76 assessor's appraisal market value, allowing it to increase up to 2% per year; establish new market values for purposes of taxation on property when it changes ownership or has new construction on it; require a 2/3 vote of both houses of the Legislature for increases in State taxes; and permit new local taxes, other than property taxes, by a 2/3 vote of "qualified electors" in a local agency.

Senate Bill 1 will require that State government annually pay $1.4 billion to local governments and taxpayers to provide the property tax relief and maintain existing services. This money will be paid from the existing State surplus.

Proposition 13 will require that local governments throughout California(counties, cities, school districts and special districts)reduce the amount of property taxes now collected by about $7 - 8 billion.

There have been many conflicting and confusing statements made about these measures in the past few months. It was for this reason that the San Diego County Board of Supervisors appointed this Blue Ribbon Commission. In a letter to the Board of Supervisors dated March 15, 1978, Board Chairwoman Lucille V. Moore stated that the commissioners should "examine arguments from both sides...and determine to the best of their ability the actual impact of the Initiative." And further, that the Commission should "also attempt to determine the impact of this (Proposition 8/SB 1) reform package."

Members of the Blue Ribbon Commission have reviewed and discussed the information received. County staff provided additional information as it was requested by the Commission. On the basis of the foregoing, we have arrived, to the best of our ability in the time available, at the following impact of Propositions 8 and 13 and Senate Bill 1 on residents and government agencies in San Diego County.

FINDINGS

It is the finding of this Commission that:

1. Services provided by local governments in San Diego County would not be affected by the passage of Proposition 8 combined with Senate Bill 1.

2. Services provided by local governments in San Diego County would be affected from relatively little to severely by the passage of Proposition 13.

3. The wording and provisions of Proposition 13 make it impossible to accurately predict the effects of its passage.

4. The degree to which services will be affected by Proposition 13 will depend on the actions taken by the State Legislature after June 6, 1978.

5. Proposition 13 will inhibit legislative action because of its requirement for a 2/3 vote of both houses effective on June 7, 1978.

6. Proposition 13 raises many serious Federal and State legal (constitutional and interpretive) questions which will need to be decided by the courts. Proposition 8 raises fewer and less serious legal questions.

7. The social costs of Proposition 8 would be minimal. The social costs of Proposition 13 could be very great if lost property tax revenues are not replaced, due for example to increased unemployment and decreased social services to the elderly, youth and minorities.

8. Proposition 8 and Senate Bill 1 specifically target property tax relief to residents of owner-occupied property, renters and senior citizens. Proposition 13 would provide property tax relief to all classes of property owners -- including commercial, industrial, agricultural property owners, public utilities and owners of residential income units.

Section II of this report summarizes Propositions 8 and 13 and Senate Bill 1, the companion measure to Propositon 8. This is followed in Section III by a comparison of the impact of these measures on various classes of property owners under varying conditions. Section IV compares the impact of the two measures on renters. A comparison of the potential impact of the measures on the various types of local governments in San Diego County is contained in Section V. This comparison traces the potential

impact through the finances, services and finally social consequences under varying conditions developed earlier in Section III.

Other potential ramifications which are not discussed in earlier sections are examined in Section VI. Finally, Section VII contains memoranda of comment, reservation or dissent prepared by individual members of the Commission which are footnoted in earlier parts of the report.

A second volume containing the reports, analyses and correspondence received and reviewed by the Commission has been prepared and is available upon request from the County Office of Management and Budget.

The Commission hopes that the Board of Supervisors makes this report readily available for public review. We believe its contents will help clear up some of the confusion surrounding Propositions 8 and 13 on the June 6, 1978 Statewide ballot.

II. SUMMARY OF PROPOSITION 8/SENATE BILL 1 AND PROPOSITION 13

This section is intended to merely summarize the Commission's understanding of Propositon 8/Senate Bill 1 and Proposition 13. No attempt has been made in this summary to interpret the meaning or impact of any of the provisions of these measures beyond what is contained in the measures themselves.

A. Proposition 8 and Senate Bill 1

1. Proposition 8

Proposition 8 is a Constitutional Amendment which was adopted by the State Legislature in 1977 for placement on the June 6, 1978 ballot. This Amendment, if approved by a majority vote, will add section 9.5 to Article XIII of the California Constitution. This new section will authorize the Legislature to enact laws to allow the taxation of owner-occupied residences at a lower rate than other property. It prohibits increasing the tax rate on other property because of lowering the tax rate on owner-occupied residences.

2. Senate Bill 1

Senate Bill 1,(SB 1) authored by Senator Peter Behr, was signed into law by Governor Brown on March 3, 1978. Among other provisions, SB 1 implements the lower tax rate on owner-occupied residences which will be authorized only if Proposition 8 is approved by the voters. If Proposition 8 is not approved, SB 1 will be automatically repealed on June 7, 1978. No matter what happens to Proposition 8, if Proposition 13 is approved, SB 1 will be automatically repealed on June 7.

Senate Bill 1 will do the following:

. Provide tax relief to homeowners equal to at least thirty percent (30%) of existing taxes by:

(a) removing homeowners' share of county costs of Medi-Cal, Adult Welfare, Aid to Families with Dependent Children and Boarding Homes and Institutions.

(b) if the total rate reduction from (a) above does not equal at least 30%, there will be an additional reduction, so that the total property tax rate reduction will be thirty percent (30%).

- Increase renter relief to $75. Current relief is $37. (The Legislature based this amount on the average property taxes of $250 indirectly paid by renters. $75 is 30% of this average.)

- Increase the senior citizens' property tax relief benefits and extend benefits to surviving spouses.

- Impose property tax revenue limitations on local governments using the split-rate which is authorized by Proposition 8.

- Limit the percentage change in counties' payments to the State for Adult Welfare and Medi-Cal to the percentage change in actual tax levy.

- Limit State revenues from "Major Taxes and Licenses" to an amount not to exceed an annual increase equal to the percentage increase in the California personal income multiplied by a revenue elasticity factor of 1.2. (This in effect allows State revenues from taxes and licenses to increase not less than 20% a year.)

- Require assessors to begin immediately determining the properties which are common to both the 1977-78 and 1978-79 roll to determine those properties which would be taxed as owner-occupied dwellings under Proposition 8.

B. Proposition 13

Proposition 13 is a Constitutional Amendment which was qualified for the June 6, 1978 ballot through the initiative process. The Amendment, if approved by a majority vote, will add Article XIIIa to the California Constitution. This new Article will do the following:

- Limit ad valorem property taxes of all real property to one percent (1%) of the full cash value of the property.

- Exempt existing voter approved bonded indebtedness from the 1% limitation.

- Define "full cash value" as the Assessor's appraised value of real property as of March 1, 1975, adjusted by changes in the Consumer Price Index - not to exceed 2% per year.

- Permit establishment of a new "full cash value" when there is new construction or a change in ownership.*

- Permit the reassessment, up to the March 1, 1975 value, of property which was not current on the 1975-76 assessment roll.

*See memorandum of Charles Woods, San Diego County Farm Bureau, on Page VII-1.

- Require counties to collect the 1% property tax and to "apportion it according to law to the districts within the counties".

- Prohibit new ad valorem taxes on real property, or sales taxes, or transaction taxes, on the sales of real property.

- Permit the imposition of special taxes other than those prohibited by local agencies by a two-thirds (2/3) vote of the "qualified electors" of such agencies.

- Require a two-thirds (2/3) vote of all members of both houses of the Legislature for any changes in State taxes which would result in increased revenues.

All provisions of the initiative would become effective on July 1, 1978, except the two-thirds vote requirement on the Legislature which would become operative upon passage of the initiative (June 6, 1978).

III. COMPARATIVE IMPACT ON PROPERTY OWNERS OF PROPOSITION 8/SENATE BILL 1 AND PROPOSITION 13 UNDER ALTERNATIVE SCENARIOS

An initial finding of the Commission was that it is not possible to predict the impact of Proposition 13 without first making assumptions about possible actions of the State Legislature. All laws governing property taxation are contained in the California Constitution and the statutes adopted by the Legislature. The Constitution takes precedence over the statutes. When the Constitution is amended, as in the case of Proposition 13, the Legislature must amend the statutes to bring them into agreement with the Constitution and to implement the provisions of the amended Constitution. In the case of Proposition 13, the Legislature will need to provide statutory definitions for certain provisions of the amendment, and will need to adopt laws which will govern how counties are to apportion the revenue derived from the property tax among the local government agencies within the counties.

The Commission believes that the Legislature may go beyond simply implementing Proposition 13 to the point of providing some form of additional State-supplied funding to local governments.

As a consequence of the above concerns, the Commission has developed a series of scenarios, or alternate conditions, which may exist after passage of Proposition 13. This series is not exhaustive. There could be any number of other possible conditions that could exist after passage of Proposition 13. The scenarios presented, however, are believed by the Commission to represent likely courses of action for the Legislature. We wish to note that we have rejected the possible situation in which the Legislature would take no action if Proposition 13 is approved by the voters in June.

The scenarios which have been developed apply only to the passage of Proposition 13. If Proposition 8 is passed and Proposition 13 is defeated, Senate Bill 1 provides the clear guidance for implementation. In that case, we have relied upon County staff's interpretation of the implementation of Senate Bill 1.

The scenarios we have agreed upon for use in examining the impact of Proposition 13 are referred to as follows:

1. Legislature provides only for distribution of 1% property tax.

2. Legislature provides for distribution of 1% property tax and replaces all reduced property taxes with a combination of state surplus and other tax increases.*

*See memoranda of L. W. T. Waller, Association of Concerned Taxpayers, and Charles Woods, San Diego County Farm Bureau on Page VII-1.

3. Legislature provides for distribution of 1% property tax and replaces some of the reduced property taxes with State surplus in the first year only. In second and subsequent years, the Legislature would either a) provide for the distribution of the 1% property tax only, or b) would replace some reduced property taxes with other taxes.*

Following is a description of each of the scenarios as the Commission sees them:

1. Legislature provides only for distribution of 1% property tax. There are two possible sub sets for this scenario:

   a. The 1% property tax is apportioned among local taxing agencies within the county in the same ratio as property taxes are collected in 1977-78; or

   b. The Legislature prescribes a formula for distribution of the 1% property tax among agencies giving preference to certain types of agencies or services.

   For purposes of this scenario, we are using the figures developed by County staff for the amount of available property tax. County staff estimated that there would be a limitation to $228 million in 1977-78 if the 1% limitation were applied. Staff further advises to assume there would be an increase of approximately $10 million due to new construction and change in ownership and of approximately $5 million due to the 2% inflation factor in 1978-79. As a result, the Commission will use $243 million as the amount of property taxes to be raised by the 1% tax in 1978-79.

2. Legislature provides for distribution of 1% property tax and replaces all reduced property taxes with a combination of State surplus and other tax increases.

   For the purposes of this scenario, the Commission will use the plan proposed in Senate Bill 1569 by Senator Rodda. This plan would expand the sales tax to include personal services, (i.e. doctors, barbers, accountants, mechanics, etc.) increase the State rate of sales tax by 1%, impose a 20% surtax on the State Personal Income Tax, and increase the Bank and Corporation Tax from the present 9% rate to a 14% rate. The Legislature would then transfer money from the State surplus together with revenues equivalent to a 2 percent rate of sales tax, a 20% surcharge on the personal income tax, and a 5% rate of the Bank and Corporation Tax into a special fund to reimburse local governments for the provision of "essential public services" for which revenues have been reduced as a result of the passage of Proposition 13.

*See memorandum of L. W. T. Waller, Association of Concerned Taxpayers, and Charles Woods, San Diego County Farm Bureau on Page VII-1.

3. In the first year (1978-79) the Legislature provides for distribution of 1% property tax and replaces some of the reduced property taxes with State surplus after allowing for a "prudent surplus" to remain in the State Treasury. In second and subsequent years, the Legislature would either a) provide for the distribution of the 1% property tax only, or b) would replace all reduced property taxes with other taxes.

   Scenario 3a would provide for a phasing down of revenues to local governments. In the first year, revenues from property taxes would be reduced approximately 16%, and in the second year an additional 41%.

   Scenario 3b would provide for a reduction in revenues from property taxes in the first year of approximately 16%, with a replacement of those revenues or a continuation of that level of funding in future years.

A. Impact on Non-Residential Property

This section compares the impact on non-residential property of the two propositions. Non-residential property comprises approximately 30% of the property tax base in San Diego County. For ease of reference, the following table shows the 1977-78 market value, estimated amount of property taxes paid by the various classes of non-residential property and the estimated amount that will be paid under Proposition 13. Under Proposition 8/SB 1 there will be no general reduction in the amount of property taxes paid by owners of non-residential property.

TABLE III - 1
($ IN MILLIONS)

Type of Property	1977-78 Market Value	Estimated 1977-78 Taxes	Estimated Taxes With Prop. 13	Difference	% Reduction
Commercial	$3,200	$ 72.7	$30.1	$ -42.6	58.6
Agricultural	564	12.8	5.2	- 7.6	59.4
Industrial	930	20.6	8.2	-12.4	60.2
Public Utilities	1,900	43.3	15.9	-27.4	63.3
Other	1,597	36.4	15.0	-21.4	58.8
TOTAL	$8,191	$185.8	$74.4	$ 111.4	60.0

Proposition 8/SB 1

1. Commercial

There would be no immediate direct effect on commercial property in San Diego County. Because of the property tax revenue limitation contained in SB 1, property taxes on commercial property will not be permitted to increase at as great a rate as in the past. This revenue limitation will restrict the growth in annual property taxes to the cost of inflation to local government (6-7%).

Proposition 13

1. Commercial

a. Scenarios 1a. and 1b.

Commercial property comprises approximately 11.6% of the market value of all taxable property in San Diego County in 1977-78. The market value in 1977-78 is $3.2 billion. In 1975-76 this value was $2.7 billion. Assuming that the average Countywide tax rate of $9.109 applies to all of the assessed value of commercial property in 1977-78, commercial property pays approximately $72.7 million in property taxes. If it is assumed that the market value of commercial property in 1975 increased by 2% per year in 1976, 1977 and 1978, then the market value for tax purposes under Proposition 13 would equal $3.01 billion. If property taxes are limited to 1% of this value, commercial property would pay $30.1 million in property taxes in 1978-79, a reduction of $42.6 million, or 58.6% from the taxes paid in 1977-78.

Because this scenario assumes no increases in other taxes by the State Legislature, the only financial impact to commercial property owners would be an increase in income tax payments due to less property tax being deducted from income before calculation of taxable income for personal income tax and corporate income tax purposes.

Proposition 8/SB 1	Proposition 13

b. Scenario 2.

The property tax effect of this scenario on commercial property will be the same as under scenario 1. The major difference will be the impact of additional taxes on commercial property owners. Those commercial property owners who file personal income tax returns (partnerships, sole proprieterships, etc.) will pay additional income taxes because of the reduced amount of property tax deducted and, in addition, would pay a 20% surtax on the resulting income tax liability.

Those commercial property owners who are franchised by the State of California are subject to the state bank and corporation tax laws. These owners would pay an additional 44% in bank and corporation tax due to the increase in rate from 9% to 14%.*

c. Scenario 3a.

The effect on commercial property owners of this scenario would be the same as scenario 1.

d. Scenario 3b.

The effect on commercial property owners of this scenario would be similar to scenario 2, except that the increase in other taxes would be delayed one year until taxable year 1979. As a result of the delay, there may not be as high a tax increase required if the Legislature is able to establish some type of service charging mechanisms for certain local services, i.e. fire protection.

*See memorandum of L.W.T. Waller, Association of Concerned Taxpayers on page VII-1.

Proposition 8/SB 1

2. Agricultural*

There would be no immediate direct effect on agricultural property in San Diego County, except in thecase where residences are located on agricultural property. In that case, the residence, if owner-occupied, would receive the benefit of the lower taxes on owner-occupied dwellings and the remainder of the property would be taxed at the "other" rate. As with commercial property, due to the property tax revenue limitation, the taxes on agricultural property would not increase as rapidly as is possible under existing law.**

* See memorandum of Charles Woods, San Diego County Farm Bureau, on page VII-1 and VII-2.

** See memorandum of Ruben Rembaut, California Public Interest Research Group, on page VII-3.

Proposition 13

2. Agricultural*

a. Scenarios la. and lb.

Agricultural property comprises approximately 2.0% of the market value of taxable property in San Diego County in 1977-78. This value is approximately $564 million. In 1975-76, agricultural property had a market value of $460 million. Assuming the average Countywide tax rate of $9.109 apllies to agricultural property in 1977-78, it would account for apprroximately $12.8 million in property taxes.

If the 1975-76 market value of agricultural property is increased 2% a year for 1976-77, 1977-78, and 1978-79, then the market value for tax purposes under Proposition 13 in 1978-79 would be $520 million. A 1% tax of this value will yield $5.2 million in 1978-79, a reduction of $7.6 million, or 59.4%, from the 1977-78 taxes.

As with all other categories of property owners, the agricultural property owner will face some increase in income tax liability due to the reduced amount of property tax writeoff from income.

b. Scenario 2.

The property tax effect on agricultural property owners would be the same as scenaric 1. Agricultural property owners would experience a 20% increase in personal income tax, if a small farm or family business operation, or a 44% increase in bank and corporation taxes if a corporate agricultural operation.

3. Industrial

No immediate direct effect on industrial property owners would result from passage of Proposition 8. Due to the property revenue limitation, taxes would not be permitted to rise over the long run as rapidly as is possible under existing State law.

c. Scenario 3a.

The effect of this scenario would be the same as scenario 1.

d. Scenario 3b.

The effect of this scenario on agricultural property owners would be similar to scenario 2, except there would be a delay of one year, until taxable year 1979, of increases in other taxes. Like commercial property, there may not be quite as large a tax increase if the Legislature is able to come up with some type of service charging system for various local government services during the one year delay.

3. Industrial

a. Scenarios 1a. and 1b.

Approximately 3.4% of San Diego County's tax base in 1977-78 is comprised of properties classified as industrial. These properties pay approximately $20.6 million, or 3.6% of the locally paid property taxes in 1977-78.

The market value of industrial property in the County in 1975-76 was $692 million. Assuming that value increases 2% a year for 1976-77, 1977-78 and 1978-79, and allowing for new construction and change in ownership, the taxable market value under Proposition 13 in 1978-79 would be $820 million. One percent of that value is $8.2 million which is the taxes that would be due under Proposition 13. That is a reduction of $12.4 million, or 60% from the taxes paid in 1977-78.

Proposition 8/SB 1

4. Public Utilities

Public utilities would not be directly affected by Proposition 8/SB 1. With the imposition of the property tax revenue limitation future property tax increases would not be as large as is now possible under existing State law.

Proposition 13

As in the above classes of property owners, industrial property owners would pay more in either personal or corporate income taxes due to the reduced amount of property taxes deducted from income.

b. Scenario 2.

Industrial property owners, most of whom pay bank and corporation taxes, would pay a higher income tax rate. In the case of bank and corporation taxes they would pay 44% more in taxes. In the case of personal income tax payers, they would pay 20% more than under the present tax rates.

c. Scenario 3a.

The same effect on industrial property owners as in scenario 1 would result from this scenario.

d. Scenario 3b.

The effect on industrial property owners of this scenario would be similar to scenario 2, with a delay of one year in the increase of other taxes. This delay could result in lower ultimate tax increases than those noted in scenario 2.

4. Public Utilities

a. Scenario 1a. and 1b.

As a class of property, public utilities comprise approximately 6.9% of the market value of taxable property in San Diego County in 1977-78. The market value of this property is appraised at $1.9 billion by the State Board of Equalization. In

Proposition 8/SB 1

Proposition 13

1975-76 public utility owned property was appraised to have a market value of $1.3 billion. The three single largest taxpayers in San Diego County in 1977-78 are public utilities. These three are paying a total of $39.9 million in property taxes in 1977-78 in San Diego County as follows:

Public Utility	1977-78 Taxes
San Diego Gas & Electric	$21,202,498
Pacific Telephone & Telegraph	15,105,659
Southern California Edison	3,621,191
TOTAL	$39,929,348

Under Proposition 13 these three taxpayers would have the following reduction in property taxes in 1978-79:

Public Utility	Tax Reduction in 1977-78	% Reduction
San Diego Gas & Electric	$13,759,512	65.4
Pacific Telephone & Telegraph	9,929,872	65.7
Southern California Edison	1,697,616	46.9
TOTAL	$25,387,000	63.6

As with other classes of property owners, public utilities would experience some increase in Federal Corporate and State Bank and Corporation Tax liabilities due to the reduced property tax deductions. In the case of the three public utilities itemized above, the next increase in State Bank and Corporation Tax payments alone would total approximately $2.3 million.

Proposition 8/SB 1

Proposition 13

The Commission hopes that the State Public Utilities Commission will require these public utilities to reduce their rates to pass through the tax reduction to their customers.

b. Scenario 2.

The property tax effect of this scenario on public utilities would be the same as scenario #1. In addition, the public utilities would pay a 44% higher rate for bank and corporation tax (increased from 9% of income to 14% of income).

c. Scenario 3a.

This scenario would have the same effect has #1 on public utilities.

d. Scenario 3b.

An effect similar to scenario #2 would occur. As with other classes of property owners, public utilities might not be taxed at quite as high a rate after a delay of one year than under scenario 2.

B. Impact on Residential Property

Residential property comprises approximately 70% of the property tax base in San Diego County.

This section compares the impact on residential property of the two propositions. For ease of reference, the following table shows the 1977-78 market value, estimated amount of property taxes paid by owner-occupied and income units and the estimated amount that will be paid under Proposition 13. The second part of the table shows the same comparisions under Proposition 8/SB 1.

TABLE III - 2

ESTIMATED IMPACT OF PROPOSITION 13 ON RESIDENTIAL PROPERTY TAXES IN SAN DIEGO COUNTY
($ IN MILLIONS)

Type of Residential Property	Estimated 1977-78 Market Value	Estimated 1977-78 Taxes	Estimated '78-79 Taxes Under Prop. 13	Difference	% Difference
Owner-Occupied	$11,579	$218.8	$102.3	$ -116.5	-53.2
Income	7,796	177.5	66.9	-110.6	-62.3
TOTAL	$19,375	$396.3	$169.2	$ -227.1	-57.3

TABLE III - 3

ESTIMATED IMPACT OF PROPOSITION 8/SB 1 ON RESIDENTIAL PROPERTY TAXES IN SAN DIEGO COUNTY
($ IN MILLIONS)

Type of Residential Property	Estimated 1977-78 Market Value	Estimated 1977-78 Taxes	Estimated '78-79 Taxes Under Prop.8/SB 1	Difference	% Difference
Owner-Occupied	$11,579	$218.8	$163.6	$ -55.2	-25.4
Income	7,796	177.5	189.6	-12.1	+ 6.8
TOTAL	$19,375	$396.3	$353.2	$ -43.1	-10.9

Proposition 8/SB 1

1. Owner-Occupied

a. General

Owner-occupied residential taxpayers will receive a reduction of a least 30% from the property taxes that would otherwide be due in 1978-79 and future years. Property owners in this class include owners of single family residences, condominiums, and multiple units who occupy their owned residence. The following table shows the effect of this reduction on some typical properties in San Diego County:

TABLE III -4

ESTIMATED IMPACT OF PROPOSITION 8/SB 1 ON TYPICAL HOMEOWNERS IN SAN DIEGO COUNTY

Home Value	1977-78 Taxes	1978-79 Taxes	Tax Savings	% Reduction
$20,000	$ 296	$ 196	$100	33.65
35,000	638	423	215	33.65
50,000	979	650	329	33.65
65,000	1,321	876	445	33.65
80,000	1,662	1,103	559	33.65
95,000	2,004	1,330	674	33.65

Proposition 13

1. Owner-Occupied

a. General

1) Scenarios 1a. and 1b.

Information is not available as to the exact amount of property value of owner-occupied residences in the County. County staff has estimated that 42% of the market value of property in the County is comprised of owner-occupied dwellings. Owner-occupied dwellings currently receive an exemption of $7,000 market value from property taxation. It is therefore not accurate to state that their owners pay 42% of the property taxes. It is known that the total amount of homeowners exemption in 1977-78 is equivalent to market value of $1.97 billion. If this is deducted from the market value before calculating taxes, owner-occupied dwellings are calculated to pay approximately $218.8 million in property taxes in 1977-78 in San Diego County. Under Proposition 13, this would be reduced to approximately $163.6 million in 1978-79.

The following table shows the effect of Proposition 13 on typical homes in San Diego County:

Proposition 8/SB 1

Proposition 13

TABLE III - 5

ESTIMATED IMPACT OF PROPOSITION 13 ON TYPICAL HOMEOWNERS IN SAN DIEGO COUNTY*

Home Value	1977-78 Taxes	Prop.13 Taxes	Tax Savings	% Reduction
$20,000	$ 296	$200	$ 96	32.4
35,000	638	350	288	45.1
50,000	979	500	479	48.9
65,000	1,321	650	671	50.8
80,000	1,662	800	862	51.9
95,000	2,004	950	1,054	52.6

*For purposes of this report, the Commission assumes that 1% limitation applies after homeowners' exemption is deducted.

Homeowners will pay increased Federal and State State personal income taxes because of the reduced deductions for property taxes. Assuming a homeowner receives a gross savings of $745 in property taxes, the following increases in State and Federal Income Tax would occur under the circumstances noted:

TABLE III - 6

EFFECT ON STATE AND FEDERAL INCOME TAX PAYMENTS OF A $745 REDUCTION IN PROPERTY TAXES AT DIFFERENT INCOME LEVELS

Adjusted Gross Income	-- $10,000 --		-- $25,000 --		-- $50,000 --	
Filing Status	Single	Married	Single	Married	Single	Married
State Tax Increase	$ 0*	$ 0*	$ 60	$ 52	$ 82	$ 82
Federal Tax Increase	179	127	246	194	365	298
Less Property Tax Savings	745	745	745	745	745	745
Net Tax Relief	$566	$618	$439	$499	$298	$365

*Under California's 100% low-income tax credit, the taxpayer would pay no State Income Tax.

Proposition 8/SB 1

b. Senior Citizens

In addition to the initial reduction of 30% in property taxes for all owner-occupiers of residential property, persons over 62 years of age will receive increased tax relief based upon income. Under existing law, senior citizens receive relief ranging between 96% of property taxes if their income is below $3,000 to 4% if their income is between $11,500 and $12,000. This relief is provided on the first $34,000 of a residence's market value.

Proposition 13

2) Scenario 2.

If sales and income taxes are increased to provide partial offset to the reduced property taxes, homeowners would not receive the net savings indicated above. Statewide, homeowners pay 35% of the property tax, but they pay approximately 55% of sales taxes and 75% of personal income taxes.

3) Scenario 3a.

Under scenario 3a homeowners would be affected similarly to scenarios la and lb. The effect of reduced public services noted in Part V of this report would be delayed somewhat by a year. There would be a slight noticable reduction in the first year, with a more severe reduction occuring in 1979-80.

4) Scenario 3b.

The affect on homeowners under this scenario wou be similar to scenario 2, but with the increases in sales and income tax rates delayed until 1980 There would be a slight reduction noticed in public services beginning in fiscal year 1978-79

b. Senior Citizens

There is no additional tax provided to senior citizen homeowners under Proposition 13.

Proposition 8/SB 1

The new relief schedule contained in SB 1 removes the market value limitation and increases the relief schedule to range between 96% of taxes for incomes under $4,000 to 10% of taxes for incomes between $12,500 and $13,000. The effects of this relief on typical senior citizens in San Diego County using the above examples are as follows:

TABLE III - 7

SENIOR CITIZEN HOMEOWNER PROPERTY TAX RELIEF UNDER SENATE BILL 1

Home Value	Tax Savings	Additional Savings at Incomes of:		
		$4,000	$8,000	$12,000
$20,000	$100	$ 188	$ 90	$ 29
35,000	215	406	195	63
50,000	329	624	299	98
65.000	445	841	403	131
80,000	559	1,059	507	165

2. Income Units

There would be no direct effect on owners of income units by passage of Proposition 8 and implementation of Senate Bill 1. As with other classes of property owners noted earlier, owners of residential income properties will not experience as large an increase in future property taxes as would be possible under existing law. This is due to the property tax revenue limitation imposed upon local agencies by SB 1.

Proposition 13

2. Income Units

a. Scenario 1a. and 1b.

County staff estimates that approximately 28% of the assessed value of taxable property in the County is residential income property ranging from single family homes to multiple apartment units. Therefore, approximately $110.6 million in property tax savings will accrue to owners of residential income property. As noted with other classes of property owners, these owners will experience higher State and Federal income tax liabilities due to the reduced property tax deductions.

Proposition 8/SB 1

Proposition 13

b. Scenario 2.

Income residential property owners will pay higher income taxes and more in sales taxes for goods and services purchased for their units. The increased sales taxes will be deductible from income for income tax purposes. And any increased State income tax will be deductible from income in figuring Federal income taxes.

c. Scenario 3a.

Same as scenarios 1a and 1b.

d. Scenario 3b.

The impact on owners of income units would be substantially the same as scenario 2, but with a one year delay in increased taxes.

IV. COMPARATIVE IMPACT ON RENTERS OF PROPOSITION 8/SB 1 AND PROPOSITION 13 UNDER ALTERNATIVE SCENARIOS

Proposition 8/SB 1	Proposition 13
A. General*	
Residential renters will receive an increase of $38 per year in the present renters' relief program to a total of $75. This is a little more than double the present relief of $37 which is administered as a credit on personal income tax. The State Legislature has determined that the average renter in California pays approximately $250 a year in property taxes through rental payments. It has therefore established the renter relief at 30% of this amount, or $75, to be comparable to the 30% relief provided homeowners.	1. Scenario 1a. and 1b. No direct relief to residential renters. Landlords may pass on some of the reduction in property taxes, but are not required to do so by the initiative itself. 2. Scenario 2. No direct relief. Reners would pay higher sales and income taxes. 3. Scenario 3a. No direct relief, same as scenarios 1a and 1b. 4. Scenario 3b. No direct relief, same as scenario 2, except tax increases would be delayed for one year until 1979-80.
B. Senior Citizens	
In addition to the $75 relief granted to all renters, senior citizens will receive assistance based on income ranging from an additional $240 for annual incomes below $4,000 to an additional $25 for annual incomes between $12,500 and $13,000. Examples of the renters' relief provided to senior citizens are as follows:	No differences for senior citizens than for other renters.

*See memorandum of L. W. T. Waller, Association of Concerned Taxpayers, one page VII-3; and memorandum of Rex Warburton, San Diego-Imperial Counties Labor Council, on Page VII-3.

Proposition 8/SB 1

Proposition 13

TABLE IV - 1

EXAMPLES OF SENIOR CITIZENS RENTERS" RELIEF
UNDER SENATE BILL 1

Household Income	Existing Relief	SB 1 Relief	Increased Relief	% Increase
$ 4,000	$226	$315	$ 89	39
6,000	162	265	103	64
8,000	85	180	95	112
10,000	55	135	80	145
12,000	46	113	67	145
13,000	37	100	63	170

V. IMPACT OF PROPOSITION 8/SB I AND PROPOSITION 13 ON LOCAL GOVERNMENTS UNDER ALTERNATIVE SCENARIOS

A. Financial Impact

Proposition 8/SB 1

1. County

The County will no longer be required to collect that portion of the property tax from homeowners to pay for the costs of certain health and welfare programs. Staff estimates this reduction to be approximately $22.5 million in San Diego County in fiscal year 1978-79. This represents approximately 48% of the property taxes paid by homeowners for the support of County government programs in 1977-78. The County will receive additional revenue from the State to compensate for the reduction in property tax revenues.

A property tax revenue limitation is imposed on County government as well as cities and special districts. Under this limitation, the future rate of growth of the property tax will be limited to the actual cost of inflation for local governments, plus new construction. The index used to measure the cost of inflation in the first two years is the "Gross National Product Implicit Price Deflator for Goods and Services Purchased by State and Local Governments." This is most commonly referred to simply as the GNP Deflator. The table below shows the annual percentage change in the GNP Deflator over the past five years and compares that with the percentage change in the Consumer Price Index over the same period.

Proposition 13

1. County

a. Scenario 1a.

This scenario assumes that the 1% property tax would be apportioned in the same ratio as property taxes are levied in the current year. Based on this assumption, a reduction of $58 million from the 1977-78 secured property tax levy of $109.9 million was calculated as being necessary to bring the County's 1978-79 property tax financing in line with Proposition's 13 limitation. To achieve this level of reduction, County staff identified reductions in services of $46.7 million, reductions from the present level of capital program of $6.25 million and changes in financing means of $5.2 million.

b. Scenario 1b.

This scenario assumes that the State Legislature would apportion the property tax on some basis other than the ratio of existing taxes. For example, the Legislature may determine that public schools would receive 50% of the taxes, cities 15%, counties 25% and special districts 10%. Or they might determine that the property tax first be appropriated for all fire and police protection and any remaining tax be used for education purposes. Any number of distribution formulas is possible.

Proposition 8/SB 1

TABLE V - 1

ANNUAL PERCENTAGE CHANGE IN GNP DEFLATOR AND CONSUMER PRICE INDEX (CPI) 1972-1977

Year	% Change In GNP Deflator	% Change In CPI
1973	7.3	8.8
1974	10.3	12.2
1975	9.5	7.0
1976	6.2	4.8
1977	6.8	6.8

After 1979-80, a "California Local Agency Price Deflator" will be used which will measure the cost of inflation to local governments in California only.

2. Cities

Cities' financing will not be directly affected by Proposition 8/SB 1. The property tax revenue limitation will prevent cities from increasing property tax revenues greater than the cost of inflation and new construction. This will have the effect of preventing some cities from increasing their property tax revenues at as great a rate as they have in the past.

Proposition 13

Because of the uncertainty of this approach, the Commission cannot reach any conclusions about the financial impact on the County.

c. Scenario 2.

This scenario assumes that the Legislature would replace all reduced property taxes with a combination of the surplus and increased State taxes. In this case, there would be no effect on the finances of County government except for the source of the funding.

d. Scenario 3a.

Under this scenario the County and all other local agencies would reduce revenues equivalent to approximately 16% of property taxes in the first year and an additional 41% in the second year. Under this condition, and assuming increases in the tax base due to new construction and change in ownership, the County would need to reduce financing by approximately $16 million in 1978-79 and an additional $40 million in 1979-80.

e. Scenario 3b.

Under this scenario, the County would reduce financing by approximately $16 million in 1978-79 and sustain that reduced level in future years.

2. Cities

a. Scenario 1a.

Under this scenario County staff estimates cities in San Diego County would have a reduction of approximately $36 million from the 1977-78 level of property taxes.

Proposition 8/SB 1

Proposition 13

As a percentage of total city expenditures, this reduction amounts to approximately 16.7% of cities' 1977-78 budgets. As a percentage of cities' total taxes, this amounts to approximately 42.7%

b. Scenario 1b.

Because of the uncertainty of the distribution formula it is not known what level of property tax financing would be available to city governments under this scenario.

c. Scenario 2.

There would be no reduction in cities' financing under this scenario.

d. Scenario 3a.

Under this scenario there would be a reduction of approximately $10.6 million in property tax financing for cities in San Diego County. This amounts to approximately 5% of cities' 1977-78 budgets.

e. Scenario 3b.

Under this scenario there would be a reduction of approximately $10.6 million in property tax financing in the first year (1978-79) and an additional reduction of approximately $26 in the second and subsequent years.

Proposition 8/SB 1

3. School Districts

There would be no effect on school financing resulting from Propositon 8/SB 1.

Proposition 13

3. School Districts

a. Scenario 1a.

School districts in San Diego County would have a reduction in property tax revenues of approximately $201 million from the 1977-78 tax levy of $340.2 million, a 59% reduction.

This reduction is approximately 26% of San Diego County school districts' 1977-78 budgets. Since school districts receive no other direct revenue, the reduction in property taxes is also a 59% reduction of total taxes.

b. Scenario 1b.

Because of uncertainty about the formula that would be used to distribute the property taxes under this scenario, the Commission is unable to estimate the impact on school districts' financing.

c. Scenario 2.

No effect on school financing.

d. Scenario 3a.

There would be a reduction of approximately $54.5 million in financing of public schools in the first and subsequent years.

e. Scenario 3b.

There would be a reduction of approximately $54.5 million in the first year (1978-79) with a further reduction of approximately $146.5 million in the second and subsequent years.

Proposition 8/SB 1

4. Special Districts

No direct financial effect on special districts except for the property tax revenue limitation holding future tax increases down.

Proposition 13

4. Special Districts

a. Scenario 1a.

Special districts would have a reduction of approximately $24 million from 1977-78 taxes if the tax reduction is proportioned among government agencies. This is a 56% reduction of property taxes.

Special districts have no other tax source, therefore this is a reduction of approximately 56% of total tax revenues.

Because the financing of special districts is governed by many different provisions of State law, depending on the type of district, the financial impact will be varied. For instance, the Commission has found that fire protection districts rely solely on the property tax for financing and are not permitted by State law to raise revenues through other taxes or fees. In the case of these districts a reduction of 60% of the property taxes could be quite severe. In other cases, such as water districts, fees are allowed to pay for the cost of operating the district. In these cases, a reduction in property taxes of 56% would not be as significant.

b. Scenario 1b.

Because of the uncertainty about the formula that would be used to allocate the 1% tax, the effect of this scenario on special district financing is unknown.

c. Scenario 2.

No effect.

Propositon 8/SB 1

Proposition 13

d. Scenario 3a.

There would be a reduction of approximately $6.5 million in special districts' financing in first year, with the level of financing remaining constant over future years.

e. Scenario 3b.

There would be a reduction of approximately $6.5 million in financing in first year and in the second and future years additional reductions similar to 1a and 1b.

B. Services Impact

This Commission worked diligently to establish a reasonable understanding of the main elements of Proposition 13, Proposition 8 and Senate Bill 1 and has reviewed the foregoing estimates of the fiscal impact of the bills on County government and other San Diego public services agencies.

The impact of the propositions on service to the public is more speculative, and the social impact is even more difficult to determine with accuracy, but it was the opinion of the Commission that we would be remiss in ignoring these important areas only because there are no hard data. We shall therefore present a different kind of scenario for these studies -- one that will try to portray the changes each of the propositions will bring about in terms of the average daily life of the San Diego citizen.

Propositon 8/SB 1

1. County

There will be no effect on the services provided by the County of San Diego as a result of Proposition 8 and Senate Bill 1.

Proposition 13

1. County

a. Scenario 1a.

County staff has estimated that there would be a reduction of services of $54.1 million in fiscal year 1978-79 under this scenario. Their estimate, which they stress is only an illustration, shows more in service reductions than in property tax financing reductions due to the interrelationship between the expenditure of property taxes and the

Proposition 8/SB 1

Proposition 13

receipt of other types of revenues. The largest reduction in services could occur in the County's Human Resources Agency. This reduction would amount to $24.6 million of which $17.4 would be directly related to property tax financing. The services most affected would be welfare, probation, and social services. Social services provided by private agencies with County funds would be curtailed.

The following other services and programs administered by the Human Resources Agency will be reduced or eliminated:

- Adult Court Probation Support
- Juvenile Court Probation Support
- Adult Corrections
- Juvenile Corrections
- Juvenile Corrections Institutions
    - Girls Camp (Rancho del Rayo)
- Adult Corrections Institutions
    - Work Camps
    - Work Furlough
- Aid to Families with Dependent Children
- Social Services
- General Relief
- Boarding Home Licensing
- Care of Court Wards
- General Relief Employment Program

The programs of the Fiscal and Justice Agency would be reduced by approximately $12.5 million from the 1977-78 budget of $69.0 million. This reduction can be roughly translated into 618 staff years or, approximately 20% of current staffing levels.

Proposition 8/SB 1

Proposition 13

Services and programs administered by the Fiscal and Justice Agency that would be reduced include:

- Team Policing
- Rural Ambulance Service
- Hospital Guards
- Resident Sheriffs Deputies
- Sheriff Aviation Unit
- Sheriff Scientific Investigation
- Superior Court
- Municipal Court
- Jail Health Care
- Los Colinas Women's Detention
- Coroner Services
- Estates of Deceased
- Property Assessment
- Tax Collection
- Treasury Services

Services provided by the Community Services Agency would be reduced by $8.2 million. This reduction could require the elimination of up to 345 staff years from the present staffing level. Much of the reduction in this Agency would occur in services provided in support of other County functions, such as custodial, maintenance, mail, telephone and vehicle maintenance services. In addition, there would be reductions in the services of the Department of Transportation not supported by gas taxes, in the Departments of Agriculture, Parks and Recreation, Land Use and Environment Regulation, and Sanitation and Flood Control.

Examples of these services include:

- Flood Control
- Solid Waste Disposal

Proposition 8/SB 1

Proposition 13

- Traffic Safety Education
- Agricultural Services
- Fire Services
- Regional Parks Operation
- Regulatory Engineering Assistance
- General Plan Implementation
- Zoning Appeals

The Services provided by the Health Care Agency would be reduced by a total of $3.1 million with an equal reduction in property tax. Approximately 75 staff years may be associated with this reduction.

The major services that would be reduced in this agency are:

- Comprehensive Health Care Project
- Probation Psychological Services
- Health Education
- Public Health Nursing
- Drug Treatment
- Communicable Disease Control

Based on reductions in the other agencies, services provided by General Administration departments would be reduced by a total cost of $5.6 million for a $5.5 million reduction in propertytax financing. This reduction would include 209 staff years.

These support services include:

- Data Processing
- Personnel Services
- Accounting
- Legal Counsel
- Long range planning
- Administrative
- Management

Proposition 8/SB 1

2. Cities

   There would be no effect on services provided by cities in San Diego County.

Proposition 13

b. Scenario 1b.

   It is not possible to determine what service reductions would take palce under these conditions, since it is not known how much attention in property tax revenues would occur.

c. Scenario 2.

   There would be no reduction in services under this scenario.

d. Scenario 3a.

   This scenario would cause a slight reduction in services in the first year (1978-79) and a reduction similar to that noted in scenario la and lb in the second and subsequent years.

2. Cities

   a. Scenario la.

      Most cities throughout the County would reduce services across the board in varying degrees. Most cities have indicated they would reduce recreation services, planning services and some police and fire services, particularly fire prevention.

   b. Scenario lb.

      It is not known what services would be reduced because it is not known how much property tax revenues would be made available to cities in the County.

   c. Scenario 2.

      There would be no reduction of services under this scenario.

Proposition 8/SB 1

3. School Districts

There will be no effect on services provided by school districts in San Diego County as a result of Proposition 8 and Senate Bill 1.

Proposition 13

d. Scenario 3a.

There would be a slight reduction in cities services, most likely in the area of recreation services.

e. Scenario 3b.

There would be a slight reduction in cities services in the first year and in future years the reduction will be similar to that noted in scenarios 1a and 1b.

3. School Districts

a. Scenario 1a.

Most districts will maintain direct teaching services to students to the extent possible. The first items to be reduced or eliminated include (in alphabetical order):

Administration
Building and Maintenance Operations
Community Programs
Counseling
Extracurricular Activities (Athletics, Music, etc.)
Food Services
Health Services
School Bussing

Most districts would increase class size and student-to-teacher ratios, limit the length of class days, limit the number or periods, and increase teachers' class loads as economy measures.

Since an average of 81%, in a range of 70% to 90%, of school districts' budgets in San Diego County goes toward personnel costs, it is evident that there will be layoffs of school personnel necessary

Proposition 8/SB 1

Proposition 13

to stay within the reduced revenues available to school districts.

If the increased student/teacher ratios and other economy measures result in decresed student attendance, State apportionment funds might also decrease, leading to a further reduction in education services.

b. Scenario 1b.

The effect on services of this scenario is not known since it is dependent on the formula used to apportion the 1% tax.

c. Scenario 2.

There would be no direct immediate effect on education services. However, some people have indicated that one possible alternative is for the State to assume the full cost of public education. If this happens, the Commission believes there will be a long term effect on education services due to greater State control.

d. Scenario 3a.

There would be a slight reduction in education most likely including the elimination of some non-classroom programs and some increases in class sizes and teacher loads.

e. Scenario 3b.

There would be a slight reduction of services along the lines of 3a. in the first year, with a reduction as noted in 1a and 1b in the second and later years.

Proposition 8/SB 1

4. Special Districts

There would be no general affect on the services provided by most special districts in San Diego County as a result of Proposition 8 and Senate Bill 1. It is possible, however, that in the case of some lighting and lighting maintenance districts the cost of electricity might increase at a greater rate than property taxes would be permitted to increase under the SB 1 revenue limitation. In such cases, street lights would need to be turned off, or the voters of the district could authorize a tax increase in an election for that purpose.

Proposition 13

4. Special Districts

a. Scenario 1b.

The service impact of this scenario will vary widely among different types of special districts. For example, fire protection districts rely solely upon property taxes for financing their services. In contrast, most water and sewer special districts finance their services from user charges. Therefore, more severe reductions would occur in fire protection services than in sewer or water services. Many fire protection districts would need to reduce staffing and in some cases close fire stations.

b. Scenario 1b.

The service impact of this scenario would depend on the formula used by the Legislature to distribute the property tax revenues.

c. Scenario 2.

No effect on services of special districts.

d. Scenario 3a.

There could be a slight reduction in services of some special districts. Those of which no have the authority (i.e. sewer and water districts) would most likely raise the rate of service charges to compensate for the reduced property taxes. Those which don't have that authority (i.e. fire protection and lighting) would need to reduce services in line with the 16% reduction in financing.

Proposition 8/SB 1

Proposition 13

e. Scenario 3b.

In the first year (1978-79) the service impact of this scenario would be the same as 3a. In the second and future years, the impact would be similar to scenario 1a or 1b.

C. Social Impact

Proposition 8/SB 1

1. County

Since no services provided by County government will be affected by Proposition 8 and Senate Bill 1, there will not be any social impacts as a result of their passage.

Proposition 13

1. County

a. Scenario 1a.

The Commission believes the service reductions due to this scenario would have social impacts along the following lines:

- further overcrowding of juvenile detention facilities*
- lessened efforts toward self-sufficiency of welfare receipients
- dismissal of criminal prosecution cases
- delays in civil court cases
- higher incidence of health problems in high risk groups
- reduced restaurant inspections
- further jail overcrowding with problems of health and violence
- postponing purchase of land for parks and open space will make acquisition nearly impossible as prices of land increase. Lack of funds will prohibit County and City from bidding favorably on needed areas.
- increases in unemployment, both public and private sector employees, due to cancellation of construction and service contracts
- increase in number of welfare cases

*See memorandum of Elaine Moser, United Way, on page VII-3.

2. Cities

The Commission anticipates no social impact on residents of cities as a result of Proposition 8 and Senate Bill 1.

b. Scenario 1b.

The social impact of this scenario could not be known until it could be known what services would be reduced.

c. Scenario 2.

There would be little social impact under this scenario since there would be few service reductions.

d. Scenario 3a.

There would be little social impact under this scenario.

e. Scenario 3b.

The social impact of this scenario would be similar to scenario 1a, but would take two years to have the full impact felt.

2. Cities

a. Scenario 1a.

Reductions in recreation services may possibly lead to greater vandalism and juvenile delinquency. Reduced fire and police services are likely to lead to deterioration of public safety and possible increases in insurance rates.

b. Scenario 1b.

The social impact resulting under this scenario would not be known until after it is known what services would be reduced.

Proposition 8/SB 1

3. School Districts

   There would be no social impact resulting from Proposition 8/SB 1.

Proposition 13

c. Scenario 2.

   There would be no social impact within cities under this scenario.

d. Scenario 3a.

   There would be little social impact under this scenario.

e. Scenario 3b.

   The social impact of this scenario would be similar to that under scenario 1a, but would take two years to be fully felt.

3. School Districts

   a. Scenario 1a.

      This scenario will most likely result in poorer educational achievement, a higher dropout rate, discipline problems, and possible more delinquency.

   b. Scenario 1b.

      The social impact resulting from this scenario would not be known until after it is known what services would be reduced.

   c. Scenario 2.

      There would be no social impact resulting from this scenario.

   d. Scenario 3a.

      There would be little social impact under this scenario.

4. Special Districts

There would be no social impact as a result of Proposition 8 and Senate Bill 1's impact on special districts.

e. Scenario 3b.

The social impact of this scenario would be similar to that under scenario 1a, but would take two years to be fully felt.

4. Special Districts

a. Scenario 1a.

There will be possibly higher fire losses, deterioration in sewer and water systems and increases in fire insurance premiums.

b. Scenario 1b.

The social impact resulting under this scenario would not be known until after it is known what services would be reduced.

c. Scenario 2.

There would be no social impact resulting from this scenario.

d. Scenario 3a.

There would be little social impact under this scenario.

e. Scenario 3b.

The social impact of this scenario would be similar to scenario 1a, but would take two years to be felt.

VI. RAMIFICATIONS OF PROPOSITION 8/SB 1 AND PROPOSITION 13

The following section discusses some of the ramifications of Proposition 8/SB 1 and Proposition 13 which the members of the Commission feel are deserving of serious consideration. These ramifications are discussed in this separate section rather than in the preceding comparison because the Commission believes they are cross-cutting issues which are not related to any one set of circumstances noted in the previous section. In those cases where Proposition 8/SB 1 is not discussed, it is because the Commission believes there are no serious ramifications of these measures.

A. Legal Issues

There are a number of legal issues raised by Proposition 13. Some of these arise from the vague and general wording used in the initiative. Others result from the apparent conflict of the provisions of the initiative with other Federal and State constitutional provisions.

1. <u>What governments would impose or levy the property tax?</u>

   There is no existing law relating to apportionment of taxes except for the County, upon collection, to distribute the revenues to the districts based upon their individual levy. Given the 1% limitation, there is no method embodied in present laws for determination of what portion of that 1% is to be applied to each taxing entity. An April 27, 1978 analysis by the California Attorney General states that "Enabling legislation will be necessary to carry out the apportionment."

2. <u>Does the term "districts" include cities and counties?</u>

   Under current law, counties are political subdivisions, not districts, and cities are municipal corporations, not districts.

3. <u>Will the 1% limitation apply to personal property as well as real property?</u>

   Under present law, personal property is taxed based upon the prior year's tax rate for real property on the secured tax roll. However, the initiative states only that the taxes on "real property" shall be limited to 1% of the full cash value.

4. <u>Can the "full cash value" be adjusted downward from the Assessor's 1975-76 valuation if there has been damage or depreciation of the property?</u>

   The provisions of the initiative appear to prohibit such downward adjustments.

5. <u>When will the appraised value of "newly constructed" property change?</u>

No definition of "newly constructed" is contained in the initiative. It is therefore unclear as to whether this reappraisal will apply to additions of existing structures as well as to new construction which takes place on previously vacant land.

6. <u>Will the revaluation of properties upon change of ownership violate Article XIII, Section 1 of the State Constitution which requires all property to be assessed at the same percentage of fair market value?</u>

As a result of the revaluation of properties upon change of ownership, identical properties will be assessed at market values based on differing criteria and will pay differing taxes to the same agencies. It might be argued that this situation would violate Article XIII, Section 1 of the State Constitution. (See discussion of inequities, below.)

7. <u>Will the establishment of market value at the 1975-76 level apply to real property assessed by the State Board of Equalization?</u>

The State Board of Equalization, and not county assessors, assess properties owned by public utilities throughout the state. However, the initiative refers only to "the county assessors valuation of real property" in 1975-76 as being the value basis for taxation.

8. <u>Will all existing "special taxes" be subject to a 2/3 vote of the "qualified electors"?</u>

It is not clear whether this provision applies to "special taxes" to be levied after the effective date of the amendment or to all "special taxes" including those now in effect.

9. <u>Who is a "qualified elector"?</u>

This term is not defined in the initiative or State law. It might mean one of three things:

a. any person in the State who is a U. S. citizen and at least 18 years of age;

b. any person registered to vote; and

c. any person actually voting in an election

B. Inequities

As noted in the previous discussion, the provision of Proposition 13 which allows the revaluation of property upon change of ownership, gives rise to a problem of inequity in tax burdens. This provision would appear to penalize those persons who, for various reasons (i.e. military, job relocation), are forced to move. In such cases these people will pay property taxes based upon the value of their new homes when they purchased them. Their more stationary neighbors will be paying taxes based upon the 1975-76 value increased by 2% a year. Meanwhile, all persons in the neighborhood would be receiving the same level of public services supported by property taxes. This problem raises issues of possible violation of the equal protection clauses of the Federal and State Constitutions.

In addition, this problem of tax inequity would appear to discriminate against homeowners as a class of property owner. It has been noted that, on the average, homes in California change ownership once every seven years, and in San Diego even more frequently. Other types of property (commercial, industrial, agricultural, etc.) do not change ownership as often. Consequently, there would be a shift in the overall tax burden in a way that over a period of time owner-occupied residences would pay a larger and larger share of property taxes.

C. Local Control and Accountability

The Commission believes that there will be a loss of control and accountability of local elected officials if Proposition 13 is adopted and local governments begin to rely more heavily on funding provided by the State and Federal governments. The State Legislature would be in a position to decide what local services would be financed by State-levied taxes and there would be much stronger State government direction in the programs of local agencies. Access by the citizenry to the real policy decision makers under these circumstances would be much more limited than at present.*

Additionally, local control may be further eroded as the courts attempt to clarify Proposition 13's ambiguous language and intent. The effect will be more government by courts.

D. Employment

Passage of Proposition 13 is likely to cause severe unemployment throughout the County under the situations illustrated in scenarios 1a, 1b, and 3b. San Diego County estimates that approximately 2100 staff years would need to be reduced from

*See memorandum of L. W. T. Waller, Association of Concerned Taxpayers on Page VII-3.

its present staffing level. The San Diego Unified School District estimates a reduction of 2,444 positions from its present staffing. The total for these two agencies alone is 4,544 positions which would need to be eliminated to bring their staffing in line with available revenues. There are 298 other taxing agencies in the County. Many of them would also be faced with reducing their employment if no aid is provided by State government for the reduced property taxes.

In addition to the social costs of the displacement of workers, taxpayers will bear the direct cost of unemployment benefits for most laid off workers. This cost will be paid partially by the Federal government and partially by the local governments. The monies to pay the unemployment insurance will be diverted from revenues that would normally be used to provide public services.

The City of San Diego, the County of San Diego and various departments within each of these governmental units have been beset with suits for not having afforded Black Americans, Chicanos/Mexican Americans or women equal employment opportunities. Much progress has been made in the past year in the hiring and promotion of minorities.

Most agencies and districts laying off employees will use seniority as the primary basis for deciding who will be laid off. For instance, the County's layoff procedure, embodied in the Rules of the Civil Service Commission, uses total seniority with the County together with seniority within the present position to determine the order of layoff. As a result, those going into the jobless ranks will be the most recently employed. Many will be women and minorities hired under Federally mandated affirmative action programs and both the intent and the effects of this effort will be negated.

Programs of the City and County funded by the Federal government require affirmative action programs. There would be a loss of revenue if the City and County were not in compliance with the requirements of the Federal government. Historically, during times of cutbacks, recessions, or weak economic conditions, ethnic minorities have been the ones hardest hit. With a Federal cutback on revenue, programs and people in minority communities would suffer great hardships.

The San Diego Unified School District is presently under a court mandate to desegrate its schools. The passage of Proposition 13 would have an effect on this effort.*

E. Other Financial Impacts

Among other financial impacts that the Commission wishes to note are the effects of cutbacks in government spending on the many private agencies which contract with local government.

*See memorandum of Walter Porter, National Association for the Advancement of Colored People, on Page VII-4; and memorandum of L. W. T. Waller, Association of Concerned Taxpayers on Page VII-3.

These range from the construction industry through private social service agencies. While much of the money now spent in this County to fund construction projects and social service programs is not derived from the property tax, the Commission recognizes that those monies will be shifted to fund more immediate public safety priorities such as police and fire protection. As a consequence, the unemployment problem noted above might become even more severe.

Another significant financial impact resulting from Proposition 13 is a reduction in Federal General Revenue Sharing coming to the cities and County. It has been estimated that local governments in California will experience a reduction of $45 million in revenue sharing. This is due to the funding formula used by the Federal government which uses the amount of local taxes as one of the determinants of relative need of local governments for revenue sharing. How much of this reduction will occur in San Diego is not known, but it would be reasonable to expect about a 10% loss in revenue sharing monies in the County.

The ability of local governments to secure long term financing for major public improvements is likely to be seriously hampered under Proposition 13. Of particular concern are lease-revenue bonds and tax allocation bonds which are the major source of financing local redevelopment projects. Local governments will also be prohibited from issuing general obligation bonds because of the limited property tax revenues available. This concern has already led to one major bond rating house suspending its ratings of California municipal securities.

F. Predictability

A final concern of the Commission is the lack of predictability about the effects of the passage of Proposition 13. As we have noted in many places throughout this report, it is simply not possible to foresee with certainty what actions will be taken by the Legislature and then what specific effect those actions may have on individuals and government agencies. We have attempted to follow an approach which shows the range of possible effects the initiative's passage may have. We have confidence that, given the caveats stated throughout this report, our analysis and "findings of fact" are reasonable.

On the contrary, Proposition 8's effects seem to be fairly clear as a result of the passage of Senate Bill 1. This legislation has detailed provisions which make it possible to more accurately predict its effect.*

*See memorandum of L. W. T. Waller, Association of Concerned Taxpayers, on Page VII-4.

VII. MEMORANDA OF COMMENT, RESERVATION, OR DISSENT

Members of the Commission were given the opportunity to submit memoranda if they wished to elaborate on, or withhold support of, or disagree with any portions of this report. In those cases where memoranda were submitted they have been noted in the text by an asterisk (*) and are listed below.

Page II-2, by Charles Woods, San Diego County Farm Bureau.

> There is the possibility that some property, no one knows how much, will be re-appraised upward, if the courts find this section to be constitutional.

Pages III-1, III-2 and III-6 by L. W. T. Waller, Association of Concerned Taxpayers and Charles Woods, San Diego County Farm Bureau.

> The Association of Concerned Taxpayers views the adoption of SB 1569 by Senator Rodda as at best premature, and in all possibility unnecessary. The Board of Supervisors should keep in mind that we are talking about a State surplus in excess of $5 billion. This allows the Legislature time to analyze what local needs, if any, will exist. Only when such needs have been actually determined do we believe any "make up the difference" type of legislation is necessary. To react to the passage of Proposition 13 in such a hasty manner is, we believe, a classic example of over-reaction and is irresponsible.
>
> Scenario 3 does not take into consideration increasing revenues at both the State and local levels in subsequent years. This increase, annually, is not an unconsequential amount.

Page III-7, by Charles Woods, San Diego County Farm Bureau.

> Agriculture is a major industry in San Diego County, accounting for gross sales of $335,034,680 in 1977 (latest figures from the County Agricultural Commissioner). This more than one-third billion dollars is new money, not a tax-supported industry, such as the military and aerospace manufacturing which enjoy places above agriculture in value here. Statewide, agriculture is the largest industry with a gross sales of $8.5 billion (Dept. of Food & Agriculture figures). Agriculture supports thousands of jobs in the county. In addition to farmworkers, agriculture generates jobs in transportation, processing, handling, and numerous agricultural services. San Diego County has ranked in the top 20 counties in agricultural production for many years. It is an industry that the Board of Supervisors have publicly stated that, "it must be allowed to remain viable in the best interests of the county's economy."

Farmland is assessed at its "highest and best use." Therefore, if a house is built or improvements are made in a farming community, the land is re-assessed to the value it could have if it was "improved" also. This means that farmland is not assessed on the basis of its value as farmland but on the basis of its highest and best use. The assessor is required to do this by State law. Accordingly, farmland is assessed and taxed as if it was "potential subdivision property." This higher assessment does not take into consideration agricultural zoning or other restrictions placed on the property as a valid reason for assessing on the basis of farmland use. However, the Williamson Act, a State law which established the Agricultural Preserve, allows a farmer or rancher to enter into a contract with the County Supervisors for a period of not less than ten years. Land in the agricultural preserve has placed upon it very strict regulations, requiring the land to be used exclusively for its present farming or ranching use. Land in this contract is then assessed on its use as farmland and not according to its highest and best use. Because the contract is so restrictive and long (it takes ten years to phase out) few farmers have availed themselves of this law in San Diego County.

California farmers presently pay an average property tax of $11.50 per acre, compared to the national average property tax for farmland of $3.50 per acre (U.S.D.A. figures in Univ. of Calif. farm economics publication). It should be noted here that much of the irrigated farmland in the state has a property tax nearly double the $11.50 average.

Proposition 8 will have very little effect, either positive or negative, on farming in the immediate future. It is expected, however, that in several years the tax rate will increase on all classes of property other than "owner-occupied" property. Agriculture would be included in this increase and further reduce its ability to compete with other states.

Proposition 13 will have an immediate positive effect on agriculture. It will immediately have its tax bill reduced by approximately 64%. This will put agriculture in a more financially sound position. Proposition 13 will enable agriculture to flourish in this county for a longer period of time than if Proposition 8 or no tax relief measure is adopted.

Farmers and ranchers of this county agree that the two major reasons for leaving the county (and state) are: (1) Costs inputs (property taxes, an important item) and, (2) Pressure from urbanization. The County Agricultural Commissioner's office has a detailed report outlining the rapid decline of our county's milk and egg production operations.

Page III-7, by Ruben Rumbaut, California Public Interest Research Group.

It should be noted that the State Legislature is presently considering two major bills (SB 193 and AB 1900) which would result in additional property tax relief to agricultural properties under certain conditions.

Page IV-1, by L. W. T. Waller, Association of Concerned Taxpayers.

Comparative Impact on Reners - Proposition 13
A. General - general comment; increases appear highly unlikely in light of tax reduction to landlords and threat of rent control.

Proposition 8/SB 1 - A. General - general comment; increase in rent likely as other costs go up forcing landlords to raise rent just to break even.

Page IV-1, by Rex Warburton, San Diego - Imperial Counties Labor Council

It has not been shown that increases or decreases in residential rents are significantly related to increases or decreases in property taxes. Therefore, it is felt that property tax reductions will not influence residential rents but may influence profit margin.

Page V-14, by Elaine Moser, United Way.

The Probation Department reports that Juvenile Hall was out of compliance for 121 days from October 1977-March 1978. The assigned maximum capacity allowed by California Youth Authority is 217 youth. The overpopulation averaged 12, ranging from 6 - 23 youth.

It would appear that the closing of any youth facilities or the diminution of home supervision or outreach services to youth may increase the rate of juvenile crime, since the only current population of the facilities are youth in categories other than 601 status offenders.

Pages VI-3, VI-4 and VI-5, by L. W. T. Waller, Association of Concerned Taxpayers.

Paragraph C - local control and accountability; ACT believes that passage of Proposition 13 will make the Legislature very aware that Californians are tired of big government and over regulation. ACT believes that the only requirements that the State or Federal government should impose should be performance - which in most cases should be easy to measure. Passage of Proposition 13 should have the opposite effect of what is predicted.

Paragraph D - Employment. Comment; this inequity assumes that no finances will be provided to bridge the initial gap that might temporarily occur. ACT believes that any employment loss, if necessary, can be achieved by normal attrition.

Paragraph F - Predictability. Comment; one of the major advantages to Proposition 13, particularly as it pertains to seniors and couples purchasing a home is its predictability. These people will know what their property taxes will be and they can predict it forever. It should provide owners with considerable reassurance regarding ongoing costs of their home or property.

Regarding the actions that the State government might take, ACT believes that the mandate that Proposition 13's passage will provide will give the Governor and the Legislature all the guidance they will need.

Page VI-4, by Walter Porter, National Association for the Advancement of Colored People.

The most significant gains by Black Americans have been made in the last ten years. If the doctrine of seniority or last hired first fired prevails, Black Americans are, again, the victims. The passage of Proposition 13, though not stated, would seriously frustrate the aims of Black Americans, and other special employment groups to move into the mainstream of American life.